

**REPORT OF THE AUDIT OF THE
MONROE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MONROE COUNTY FISCAL COURT

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Monroe County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions, based on our audit and the report of other auditors, on the governmental activities, business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information financial statements of Monroe County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$10,194,925 as of June 30, 2011. The fiscal court had unrestricted net assets of \$318,349 in its governmental activities as of June 30, 2011, with total net assets of \$10,172,991. In its business-type activities, total net cash and cash equivalents were \$8,913 with total net assets of \$21,934. The fiscal court's discretely presented component units had net assets of \$7,426 as of June 30, 2011. The discretely presented component unit had net cash and cash equivalents of \$1,421. The fiscal court had total debt principal as of June 30, 2011 of \$9,605,000 with \$405,000 due within the next year.

Report Comments:

- 2011-01 The Fiscal Court Should Follow The County's Procurement Policy Procedures For All Construction Projects Over \$20,000
- 2011-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2011-03 The Jail Canteen Lacks An Adequate Segregation Of Duties
- 2011-04 The Fire And Rescue Squad Lacks Adequate Segregation Of Duties

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Tommy Willett, Monroe County Judge/Executive
Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Monroe County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Monroe County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Monroe County Recreation, Tourist, and Convention Commission, a discretely presented component unit, which represents 100 percent of the financial data of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Monroe County Recreation, Tourist, and Convention Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

As described in Note 1, Monroe County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Monroe County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Members of the Monroe County Fiscal Court

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Monroe County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2011 on our consideration of Monroe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2011-01 The Fiscal Court Should Follow The County's Procurement Policy Procedures For All Construction Projects Over \$20,000
- 2011-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts
- 2011-03 The Jail Canteen Lacks An Adequate Segregation Of Duties
- 2011-04 The Fire And Rescue Squad Lacks Adequate Segregation Of Duties

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 7, 2011

MONROE COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Tommy Willett	County Judge/Executive
Alonzo Ford	Magistrate
Roger Deckard	Magistrate
Ricky Bartley	Magistrate
Mitchell Page	Magistrate
Karen Gordon	Magistrate

Other Elected Officials:

Wesley Stephens	County Attorney
Elmer Doyle Fox	Jailer
Teresa Sheffield	County Clerk
Joyce Emberton	Circuit Court Clerk
Roger Barlow	Sheriff
Louis L. Carter	Property Valuation Administrator
Jackie Waldon	Coroner

Appointed Personnel:

Sheryl Conkin	County Treasurer
Beverly Harper	Occupational Tax Administrator

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MONROE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

MONROE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government			Component Unit -
	Governmental	Business-Type		Monroe County
	Activities	Activities	Totals	Recreation, Tourist, and
				Convention Commission
ASSETS				
Current Assets:				
Cash	\$ 1,900,540	\$ 8,913	\$ 1,909,453	\$ 1,421
Accounts Receivable				5,825
Total Current Assets	1,900,540	8,913	1,909,453	7,246
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Construction In Progress	8,390,900		8,390,900	
Land and Land Improvements	482,400		482,400	
Buildings	5,788,994		5,788,994	
Other Equipment	307,865		307,865	
Vehicles and Equipment	105,445	13,021	118,466	
Infrastructure	2,801,847		2,801,847	
Total Noncurrent Assets	17,877,451	13,021	17,890,472	
Total Assets	19,777,991	21,934	19,799,925	7,246
LIABILITIES				
Current Liabilities:				
Bonds Payable	405,000		405,000	
Total Current Liabilities	405,000		405,000	
Noncurrent Liabilities:				
Bonds Payable	9,200,000		9,200,000	
Total Noncurrent Liabilities	9,200,000		9,200,000	
Total Liabilities	9,605,000		9,605,000	
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	8,272,451	13,021	8,285,472	
Restricted For:				
Protection to Persons and Property	4,863		4,863	
Roads	688,715		688,715	
Debt Service	888,613		888,613	
Unrestricted	318,349	8,913	327,262	7,426
Total Net Assets	\$ 10,172,991	\$ 21,934	\$ 10,194,925	\$ 7,426

The accompanying notes are an integral part of the financial statements.

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MONROE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

MONROE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,163,354	\$ 18,525	\$ 907,634	\$ 789,812
Protection to Persons and Property	505,202	68,958	90,374	
General Health and Sanitation	128,403		3,000	
Social Services	10,517			
Recreation and Culture	16,013			
Roads	990,550		1,151,705	174,923
Airports	3,000			
Interest on Long-Term Debt	342,160			
Capital Projects	3,000			
Total Governmental Activities	3,162,199	87,483	2,152,713	964,735
Business-type Activities:				
Jail Canteen	29,671	31,414		
Total Business-type Activities	29,671	31,414		
Total Primary Government	\$ 3,191,870	\$ 118,897	\$ 2,152,713	\$ 964,735
Component Unit:				
Monroe County Recreation, Toursit, and Convention Commission	\$ 20,223			

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MONROE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit -
Governmental Activities	Business-Type Activities	Totals	Monroe County Recreation, Tourist, and Convention Commission
\$ 552,617	\$	\$ 552,617	\$
(345,870)		(345,870)	
(125,403)		(125,403)	
(10,517)		(10,517)	
(16,013)		(16,013)	
336,078		336,078	
(3,000)		(3,000)	
(342,160)		(342,160)	
(3,000)		(3,000)	
42,732		42,732	
	1,743	1,743	
	1,743	1,743	
42,732	1,743	44,475	
			(20,223)
222,111		222,111	
35,569		35,569	
53,009		53,009	
693,605		693,605	10,676
188,626		188,626	
79,972		79,972	14,051
25,291		25,291	2
1,298,183		1,298,183	24,729
1,340,915	1,743	1,342,658	4,506
8,832,076	20,191	8,852,267	2,740
\$ 10,172,991	\$ 21,934	\$ 10,194,925	\$ 7,246

The accompanying notes are an integral part of the financial statements.

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MONROE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

MONROE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Public Properties Corporation	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash	\$ 318,349	\$ 688,715	\$ 888,613	\$ 4,863	\$ 1,900,540
Total Assets	<u>318,349</u>	<u>688,715</u>	<u>888,613</u>	<u>4,863</u>	<u>1,900,540</u>
FUND BALANCES					
Restricted:					
Protection to Persons and Property				4,863	4,863
Roads		688,715			688,715
Debt Service			888,613		888,613
Assigned:					
Protection to Persons and Property	8,396				8,396
Unassigned	<u>309,953</u>				<u>309,953</u>
Total Fund Balances	<u>\$ 318,349</u>	<u>\$ 688,715</u>	<u>\$ 888,613</u>	<u>\$ 4,863</u>	<u>\$ 1,900,540</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,900,540
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	22,240,829
Accumulated Depreciation	(4,363,378)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Revenue Bonds	<u>(9,605,000)</u>
Net Assets Of Governmental Activities	<u>\$ 10,172,991</u>

The accompanying notes are an integral part of the financial statements.

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MONROE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MONROE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	<u>General Fund</u>	<u>Road Fund</u>	<u>Public Properties Corporation</u>
REVENUES			
Taxes	\$ 894,348	\$	\$
In Lieu Tax Payments	98,926		
Excess Fees	188,626		
Licenses and Permits	18,525		
Intergovernmental	853,074	1,326,628	742,400
Charges for Services	18,134		
Miscellaneous	45,623	32,019	
Interest	3,162	7,960	14,169
Total Revenues	<u>2,120,418</u>	<u>1,366,607</u>	<u>756,569</u>
EXPENDITURES			
General Government	560,081		
Protection to Persons and Property	451,919		
General Health and Sanitation	38,720		
Social Services	4,375		
Recreation and Culture	11,102		
Roads		822,167	
Airports	3,000		
Debt Service	101,260		740,900
Capital Projects	504,563		6,407,868
Administration	483,618	71,952	2,050
Total Expenditures	<u>2,158,638</u>	<u>894,119</u>	<u>7,150,818</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(38,220)</u>	<u>472,488</u>	<u>(6,394,249)</u>
Other Financing Sources (Uses)			
Financing Obligation Proceeds	100,000		
Transfers From Other Funds	97,120		
Transfers To Other Funds	(8,194)	(88,039)	(9,081)
Total Other Financing Sources (Uses)	<u>188,926</u>	<u>(88,039)</u>	<u>(9,081)</u>
Net Change in Fund Balances	150,706	384,449	(6,403,330)
Fund Balances - Beginning	167,643	304,266	7,291,943
Fund Balances - Ending	<u>\$ 318,349</u>	<u>\$ 688,715</u>	<u>\$ 888,613</u>

The accompanying notes are an integral part of the financial statements.

MONROE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 894,348
	98,926
	188,626
	18,525
256,790	3,178,892
400	18,534
2,330	79,972
	25,291
<u>259,520</u>	<u>4,503,114</u>
	560,081
23,500	475,419
	38,720
	4,375
	11,102
	822,167
	3,000
	842,160
248,540	7,160,971
	557,620
<u>272,040</u>	<u>10,475,615</u>
<u>(12,520)</u>	<u>(5,972,501)</u>
	100,000
8,194	105,314
	(105,314)
<u>8,194</u>	<u>100,000</u>
(4,326)	(5,872,501)
9,189	7,773,041
<u>\$ 4,863</u>	<u>\$ 1,900,540</u>

The accompanying notes are an integral part of the financial statements.

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MONROE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MONROE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ (5,872,501)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay, Net	9,737,142
Depreciation Expense	(585,028)
Assets disposed of, net book value	(2,338,698)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds	(100,000)
Bond Principal Payments	400,000
Financing Obligation Principal Payments	<u>100,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 1,340,915</u></u>
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MONROE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

MONROE COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash	\$ 8,913
Total Current Assets	<u>8,913</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	21,367
Less Accumulated Depreciation	<u>(8,346)</u>
Total Noncurrent Assets	<u>13,021</u>
Total Assets	<u>21,934</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	13,021
Unrestricted	<u>8,913</u>
Total Net Assets	<u><u>\$ 21,934</u></u>

The accompanying notes are an integral part of the financial statements.

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MONROE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MONROE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 30,598
Total Operating Revenues	<u>30,598</u>
Operating Expenses	
Cost of Sales	9,909
Phone Cards	
Sales Tax	791
Educational and Recreational	1,542
Administrative	2,448
Depreciation	1,391
Miscellaneous	704
Total Operating Expenses	<u>16,785</u>
Operating Income (Loss)	<u>13,813</u>
Nonoperating Revenues (Expenses)	
Inmate Pay From State	816
Inmate Refunds	<u>(12,886)</u>
Total Nonoperating Revenues (Expenses)	<u>(12,070)</u>
Change In Net Assets	1,743
Total Net Assets - Beginning	<u>20,191</u>
Total Net Assets - Ending	<u><u>\$ 21,934</u></u>

The accompanying notes are an integral part of the financial statements.

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MONROE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

MONROE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Receipts From Customers for Sales	\$ 30,598
Cash Payments To Vendors for Supplies	(9,909)
Cash Payments for Sales Tax	(791)
Cash Payments for Education and Recreation	(1,542)
Cash Payments for Miscellaneous	(3,152)
Net Cash Provided By Operating Activities	<u>15,204</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	816
Inmate Refunds on Accounts	(12,886)
Net Cash Provided By Noncapital Financing Activities	<u>(12,070)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,134
Cash and Cash Equivalents - July 1	<u>5,779</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 8,913</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 13,813
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>1,391</u>
Net Cash Provided By Operating Activities	<u><u>\$ 15,204</u></u>

The accompanying notes are an integral part of the financial statements.

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MONROE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

MONROE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Agency Fund</u>
	Jail Inmate Fund
	<u> </u>
Assets	
Current Assets:	
Cash	<u>\$ 125</u>
Total Assets	<u> 125</u>
Liabilities	
Amounts Held In Custody For Others	<u> 125</u>
Total Liabilities	<u> 125</u>
Net Assets	<u><u> \$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements. The financial statements of Monroe County Recreation, Tourist, and Convention Commission, a discretely presented component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Under this basis of accounting all assets and liabilities are recognized on the Statement of net Assets. Revenues are recorded when earned and liabilities are recorded when incurred, regardless of timing of cash.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Monroe County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Monroe County Public Properties Corporation

The Monroe County Fiscal Court appoints the Public Properties Corporation's (PPC) governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the PPC. Financial information for the PPC is blended within Monroe County's financial statements. All activities of the PPC are accounted for within a governmental fund.

Monroe County Fire and Rescue Squad

On March 22, 1995, the Monroe County Fiscal Court (Fiscal Court) created the Monroe County Fire and Rescue Squad, Inc. (Fire and Rescue Squad) to respond to emergency situations. The Fire and Rescue Squad is run by four officers (chief, assistant chief, and two captains) who are elected every two years by members of the Fire and Rescue Squad. However, the four officers have to answer to Fiscal Court. The Fire and Rescue Squad bills and collects a fee for its fire runs. However, this money is turned directly over to the Fiscal Court. The Fiscal Court reimburses the monthly expenses of the Fire and Rescue Squad. In fiscal year 2009, the Fire and Rescue Squad received \$6,837 from Fiscal Court. The Fire and Rescue Squad is fiscally dependent upon the Fiscal Court and the Fiscal Court can impose its will on the entity. Financial information for the Fire and Rescue Squad is blended with Monroe County's financial statements and has been presented as a non-major governmental fund.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

Monroe County Recreation, Tourist, and Convention Commission

On January 16, 2002, Monroe County Fiscal Court (Fiscal Court) established the Monroe County Recreation, Tourist, and Convention Commission (Commission) pursuant to KRS 91A.350(2) for the purpose of promoting tourism and convention activity in Monroe County. The Commission is composed of seven members appointed by the Monroe County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is the transient room tax. On January 16, 2002, the Fiscal Court enacted an ordinance imposing a transient room tax. The Fiscal Court currently collects "3% of the gross rent for every occupancy of a suite, room or rooms charged and collected." The Fiscal Court is to issue monthly checks to the Commission. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court. Financial information for the Commission is discretely presented in the accompanying financial statements.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Audited financial statements for the Monroe County Recreation, Tourist, and Convention Commission, a discretely presented component unit, may be requested by contacting the Monroe County Recreation, Tourist, and Convention Commission, 202 North Magnolia Street, Tompkinsville, KY 42167.

C. Monroe County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Monroe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Monroe County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The primary government reports the governmental activities, business-type activities and proprietary funds using the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid, except for the recognition of depreciation expense on the statement of activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - The purpose of this fund is to account for funds received from a bond issuance. The funds will be used for completing the Monroe County Justice Center.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: Grant Fund and Monroe County Fire and Rescue Fund.

Special Revenue Funds:

The Road Fund and Monroe County Fire and Rescue Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Grant Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Public Properties Corporation Fund:

The Public Properties Corporation Fund is presented as a capital projects fund and debt service fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - Accounts for funds received from inmates and held until inmates use these funds or are released from custody.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Monroe County Public Properties Corporation because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Department for Local Government does not require the fiscal court to report or budget this fund.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Monroe County Fiscal Court: Monroe County Water District, Fountain Run Water District, and Monroe County Ambulance Taxing District. The fiscal court's accountability for these organizations, however, does not extend beyond making the appointments.

Note 2. Deposits

The primary government and Monroe County Recreation, Tourist, and Convention Commission maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 482,400	\$	\$	\$ 482,400
Construction In Progress	4,319,790	6,407,868	(2,336,758)	8,390,900
Total Capital Assets Not Being Depreciated	4,802,190	6,407,868	(2,336,758)	8,873,300
Capital Assets, Being Depreciated:				
Buildings	4,204,314	3,086,861		7,291,175
Other Equipment	871,900			871,900
Vehicles	354,584	10,000	(4,100)	360,484
Infrastructure	4,611,557	232,413		4,843,970
Total Capital Assets Being Depreciated	10,042,355	3,329,274	(4,100)	13,367,529
Less Accumulated Depreciation For:				
Buildings	(1,359,043)	(143,138)		(1,502,181)
Other Equipment	(524,575)	(39,460)		(564,035)
Vehicles	(241,822)	(15,377)	2,160	(255,039)
Infrastructure	(1,655,070)	(387,053)		(2,042,123)
Total Accumulated Depreciation	(3,780,510)	(585,028)	2,160	(4,363,378)
Total Capital Assets, Being Depreciated, Net	6,261,845	2,744,246	(1,940)	9,004,151
Government Activities Capital Assets, Net	<u>\$ 11,064,035</u>	<u>\$ 9,152,114</u>	<u>\$ (2,338,698)</u>	<u>\$ 17,877,451</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 21,367	\$	\$	\$ 21,367
Total Capital Assets Being Depreciated	21,367			21,367
Less Accumulated Depreciation For:				
Vehicles	(6,955)	(1,391)		(8,346)
Total Accumulated Depreciation	(6,955)	(1,391)		(8,346)
Total Capital Assets, Being Depreciated, Net	14,412	(1,391)		13,021
Government Activities Capital Assets, Net	<u>\$ 14,412</u>	<u>\$ (1,391)</u>	<u>\$ 0</u>	<u>\$ 13,021</u>

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 45,653
Protection To Persons and Property	27,843
General Health and Sanitation	89,683
Recreation and Culture	4,911
Social Services	6,142
Roads	<u>410,796</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 585,028</u>

Capital asset activity for Business-Type Activities for the year ended June 30, 2011 was as follows:

Business-Type Activities:

Jail Canteen	<u>\$ 1,391</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,391</u>

Note 4. Short-term Debt

On September 15, 2010, the Monroe County Fiscal Court entered into a promissory note with South Central Bank of Monroe County for operating expenses. The principal was \$100,000 at an interest rate of 5.0%. The note matured and was paid off on December 15, 2010.

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 2009

On December 1, 2009, the Monroe County Public Properties Corporation issued revenue bonds of \$10,005,000 to pay off the 2008 Series Notes, which were originally issued for the purpose of constructing a Judicial Center, and to further the construction of the Judicial Center. The principal is to be paid on the maturity date of November 1, 2028 and interest is payable semi-annually on May 1 and November 1 of each year at varying rates. As of June 30, 2011, the outstanding principal balance was \$9,605,000. Future principal and interest requirements are:

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

A. First Mortgage Revenue Bonds, Series 2009 (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest and Fees
2012	\$ 405,000	\$ 334,850
2013	415,000	326,650
2014	425,000	318,250
2015	430,000	308,840
2016	445,000	297,005
2017-2021	2,445,000	1,261,530
2022-2026	2,955,000	750,100
2027-2029	2,085,000	135,303
Totals	<u>\$ 9,605,000</u>	<u>\$ 3,732,528</u>

B. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bond	<u>\$ 10,005,000</u>	<u>\$</u>	<u>\$ 400,000</u>	<u>\$ 9,605,000</u>	<u>\$ 405,000</u>
Governmental Activities Long-term Liabilities	<u>\$ 10,005,000</u>	<u>\$</u>	<u>\$ 400,000</u>	<u>\$ 9,605,000</u>	<u>\$ 405,000</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

The county's contribution for FY 2009 was \$90,159, FY 2010 was \$110,596, and FY 2011 was \$120,183.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2011, Monroe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustment

The beginning net asset balance for governmental funds was decreased \$1,470 due to an error in the calculation of accumulated depreciation in the prior year.

MONROE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 9. Change In Accounting Principle

The Monroe County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of Fund Balance on the Balance Sheet – Governmental Funds and the presentation of funds. The Jail Fund and LGEA Fund previously presented no longer meet the definition of a special revenue fund and have now been combined with the General Fund. The implementation did not cause a restatement of total beginning fund balance or beginning net assets.

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MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 836,600	\$ 836,600	\$ 894,348	\$ 57,748
In Lieu Tax Payments	54,000	54,000	98,926	44,926
Excess Fees	20,000	20,000	188,626	168,626
Licenses and Permits	19,100	19,100	18,525	(575)
Intergovernmental Revenue	175,670	744,499	724,167	(20,332)
Charges for Services	6,300	6,300	5,250	(1,050)
Miscellaneous	8,000	8,000	37,097	29,097
Interest	3,000	3,000	2,294	(706)
Total Revenues	<u>1,122,670</u>	<u>1,691,499</u>	<u>1,969,233</u>	<u>277,734</u>
EXPENDITURES				
General Government	592,860	590,431	560,081	30,350
Protection to Persons and Property	104,570	113,623	101,643	11,980
General Health and Sanitation	14,200	64,206	38,720	25,486
Social Services	7,000	5,606	4,375	1,231
Recreation and Culture	10,300	11,200	11,102	98
Debt Service		101,260	101,260	
Capital Projects		504,563	504,563	
Administration	427,099	433,969	418,379	15,590
Total Expenditures	<u>1,156,029</u>	<u>1,824,858</u>	<u>1,740,123</u>	<u>84,735</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(33,359)</u>	<u>(133,359)</u>	<u>229,110</u>	<u>362,469</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		100,000	100,000	
Transfers From Other Funds	88,039	88,039	97,120	9,081
Transfers To Other Funds	(354,680)	(354,680)	(298,194)	56,486
Total Other Financing Sources (Uses)	<u>(266,641)</u>	<u>(166,641)</u>	<u>(101,074)</u>	<u>65,567</u>
Net Changes in Fund Balance	(300,000)	(300,000)	128,036	428,036
Fund Balance - Beginning	<u>300,000</u>	<u>300,000</u>	<u>123,505</u>	<u>(176,495)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 251,541</u>	<u>\$ 251,541</u>

MONROE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,207,279	\$ 1,207,279	\$ 1,326,628	\$ 119,349
Miscellaneous	22,744	22,744	32,019	9,275
Interest	6,000	6,000	7,960	1,960
Total Revenues	1,236,023	1,236,023	1,366,607	130,584
EXPENDITURES				
Roads	1,072,084	1,062,252	822,167	240,085
Administration	75,900	85,732	71,952	13,780
Total Expenditures	1,147,984	1,147,984	894,119	253,865
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	88,039	88,039	472,488	384,449
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(88,039)	(88,039)	(88,039)	
Total Other Financing Sources (Uses)	(88,039)	(88,039)	(88,039)	
Net Changes in Fund Balance			384,449	384,449
Fund Balance - Beginning			304,266	304,266
Fund Balance - Ending	\$ 0	\$ 0	\$ 688,715	\$ 688,715

MONROE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation of the General Fund

Total Revenues-Budgetary Basis	\$ 1,969,233
To adjust for Jail Fund Revenues	127,852
To adjust for LGEA Fund Revenues	<u>23,333</u>
Total Revenues-Modified Cash Basis	<u><u>\$ 2,120,418</u></u>
 Total Expenditures-Budgetary Basis	 \$ 1,740,123
To adjust for Jail Fund Expenditures	414,139
To adjust for LGEA Fund Expenditures	<u>4,376</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 2,158,638</u></u>
 Total Other Financing Sources and Uses-Budgetary Basis	 \$ (101,074)
To adjust for Jail Fund Transfers In	<u>290,000</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ 188,926</u></u>
 Total Fund Balance-Beginning-Budgetary Basis	 \$ 123,505
To adjust for Jail Fund Beginning Balance	4,683
To adjust for LGEA Fund Beginning Balance	<u>39,455</u>
Total Fund Balance-Beginning-Modified Cash Basis	<u><u>\$ 167,643</u></u>
 Total Fund Balance-Ending-Budgetary Basis	 \$ 251,541
To adjust for Jail Fund Ending Balance	8,396
To adjust for LGEA Fund Ending Balance	<u>58,412</u>
Total Fund Balance-Ending-Modified Cash Basis	<u><u>\$ 318,349</u></u>

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MONROE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

MONROE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	Monroe County Fire And Rescue Fund
ASSETS	
Cash	<u>\$ 4,863</u>
Total Assets	<u><u> 4,863</u></u>
FUND BALANCES	
Restricted:	
Protection to Persons and Property	<u> 4,863</u>
Total Fund Balances	<u><u>\$ 4,863</u></u>

The accompanying notes are an integral part of the financial statements.

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MONROE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011

MONROE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	Grant Fund	Monroe County Fire And Rescue Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 248,540	\$ 8,250	\$ 256,790
Charges for Services		400	400
Miscellaneous		2,330	2,330
Total Revenues	<u>248,540</u>	<u>10,980</u>	<u>259,520</u>
EXPENDITURES			
Protection to Persons and Property		23,500	23,500
Capital Projects	<u>248,540</u>		<u>248,540</u>
Total Expenditures	<u>248,540</u>	<u>23,500</u>	<u>272,040</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>(12,520)</u>	<u>(12,520)</u>
OTHER FINANCING SOURCES (USES)			
Transfers From Other Funds		<u>8,194</u>	<u>8,194</u>
Total Other Financing Sources (Uses)		<u>8,194</u>	<u>8,194</u>
Net Change in Fund Balances		(4,326)	(4,326)
Fund Balances - Beginning		<u>9,189</u>	<u>9,189</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 4,863</u>	<u>\$ 4,863</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Willett, Monroe County Judge/Executive
Members of the Monroe County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of Monroe County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 7, 2011. We did not audit the financial statements of the Monroe County Recreation, Tourist, and Convention Commission. Other auditor's whose report has been furnished to us audited those financial statements. Monroe County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the Monroe County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Monroe County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monroe County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Monroe County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-02, 2011-03, and 2011-04 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Monroe County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendation as item 2011-01.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 7, 2011

**MONROE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2011

MONROE COUNTY COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2011

STATE LAWS AND REGULATIONS

2011-01 The Fiscal Court Should Follow The County's Procurement Policy Procedures For All Construction Projects Over \$20,000

During the prior administration, the former County Judge/Executive advertised for bids on the Monroe County Wellness Center Phase I building project on August 21, 2008. Bids were received and subsequently rejected by the former County Judge/Executive on September 17, 2008. The County informed the project engineer they could not afford the building design and would need to suspend work. The County then initiated the process again using "design-build" in September 2009. The county paid the final expenditures for the project on August 19, 2010.

The County's procurement policy does not authorize this project delivery method for a procurement of design and construction services, and the County has not adopted the State's Model Procurement Code for local public agencies, KRS 45A.345 to 45A.460.

Our review of project files noted the following:

- Available funds for this project were \$2,927,051, but a budget was arbitrarily set for the project by the County Judge/Executive of \$2,500,000.
- In September 2009, the Fiscal Court advertised for sealed bid proposals for design-build services for the Monroe County Wellness Center Phase I construction project. The sealed bids were to be accompanied by a design-build proposal.
- Design-build proposals were to include scope of work, engineering designs, and design-build experience.
- The bids were publicly opened on October 8, 2009, and all bids came in over budget, but not over the amount of funds available for the project, and were publicly rejected by Fiscal Court on October 15, 2009.
- The Fiscal Court decided not to solicit new competitive bids on the project, but to use only design-build proposals, to set the construction costs not to exceed \$2.5 million without basing the request for proposals on revised specifications and quantities for the project as required by the County's procurement policy and KRS 45A.375, and to require each vendor to give a thirty minute presentation. The design-build proposals were due on October 29, 2009 and presentations were to be held on November 3, 2009.
- Design-build proposals were collected on October 29, 2009 for review.
- Design-build presentations were conducted on November 3, 2009.
- The contract for the design-build delivery method for this procurement was awarded to J&S Construction on November 3, 2009.
- Contract between J&S Construction and the Fiscal Court was signed November 4, 2009.

Auditors noted the following:

- According to the County's procurement policy, competitive sealed bids will be used for all construction projects over \$20,000 if the project has detailed specifications for the goods and services to be performed and the primary basis is cost. If all bids exceed available funds the fiscal court may enter into competitive negotiations in accordance with KRS 45A.375. Auditors noted that the available funds were not exceeded; however, the scope of work was not complete and detailed specifications were lacking.

MONROE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

STATE LAWS AND REGULATIONS (Continued)

2011-01 The Fiscal Court Should Follow The County's Procurement Policy Procedures For All Construction Projects Over \$20,000 (Continued)

- According to the County's procurement policy, the competitive negotiation method can only be used if specifications cannot be made specific enough to permit the award of a bid on the basis of either the lowest bid price or the lowest evaluated bid price and the services to be procured are professional or personal.
- The competitive negotiation method requires a request for proposals (RFP) to be advertised and to include identification of factors to be considered in the evaluation of the proposals and the relative weights assigned to each selection factor. Weights could be identified as percentages or points. Cost is also considered as a factor. This process would include a selection committee that would evaluate the cost and the other factors separately. A written evaluation of each proposal response would be prepared. The vendor with the highest combination score would be awarded the contract.
- Auditors noted that the request for proposals did not include any weights for the factors. The Fiscal Court may not set the budget for the construction project at a fixed price and require all vendors to design a building for that price. Rather, the request for proposals should have been based on detailed revised specifications, so that all proposals submitted would be based on the same specifications. If written evaluations were prepared by the selection committee, they were not included in the project files and were never submitted to auditors for review.

We recommend the Fiscal Court use competitive sealed bids for all construction projects over \$20,000. If that method is not feasible, it should use other methods authorized in the county's procurement policy and apply them properly. The design-build method of delivery for procurement is not available under the county's current procurement policy.

County Judge/Executive's Response: No response.

INTERNAL CONTROL - MATERIAL WEAKNESSES

2011-02 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts

The Fiscal Court has a lack of segregation of duties over the receipt process. The County Treasurer receives the mail, prepares the deposit, posts to the receipts ledger, and reconciles the monthly bank statements. No documented review or compensating controls exist over these areas.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving, recording, and reporting of receipts and reconciliation of those receipts. The Fiscal Court should strengthen internal controls by segregating these duties. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing source documents. In addition, we recommend that a detailed receipts log be prepared and be compared to the deposit tickets by someone other than the preparer and that checks received in the mail be stamped immediately with a restrictive endorsement.

County Judge/Executive's Response: No response.

MONROE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2011-03 The Jail Canteen Lacks An Adequate Segregation Of Duties

A lack of segregation of duties exists over all jail canteen accounting functions. The bookkeeper receives the mail, prepares and deposits the receipts, and writes checks. Adequate segregation of duties would prevent the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. The jailer should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. We recommend the jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

County Judge/Executive's Response: No response.

Jailer's Response: No response.

2011-04 The Fire and Rescue Squad Lacks Adequate Segregation Of Duties

A lack of segregation of duties exists over all accounting functions. The treasurer receives all mail, prepares and deposits the receipts, prepares checks, and performs the bank reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in the receiving processing, recording, and reporting of receipts and disbursements. The Fire and Rescue Squad should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls.

If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. We recommend the Fire and Rescue Squad separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

Monroe County Fire and Rescue Treasurer's Response: No response.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

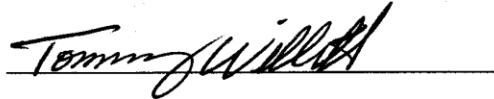
MONROE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2011**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MONROE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Monroe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in dark ink, appearing to read "Tommy Willett", is written over a horizontal line.

County Judge/Executive

A handwritten signature in dark ink, appearing to read "Sheryl Conkin", is written over a horizontal line.

County Treasurer

